

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA)	CASE NO.
NATURAL GAS COMPANY, INC.)	90-342

O R D E R

IT IS ORDERED that Delta Natural Gas Company, Inc. ("Delta") shall file the original and 12 copies of the following information with the Commission by February 20, 1991, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Reconcile the Trial Balance Net Income provided in the response to the Commission's November 20, 1990 Order, Item 8,

page 2 of 2, with the Net Income per Books provided in the January 11, 1991 Prefiled Testimony of John F. Hall, Exhibit D.

2. Reconcile the Net Plant balance provided in the response to the Commission's November 20, 1990 Order, Item 45, page 2 of 2 with the Net Plant balance provided in the January 11, 1991 Prefiled Testimony of John F. Hall, Exhibit A. Include with this reconciliation a breakdown of the various accounts that are included in the total Net Plant balance.

3. Reconcile the Advances for Construction account balance as provided in response to the Commission's November 20, 1990 Order, Item 8, page 1 of 2, with the balances provided in both of the following:

a. Item 45, page 2 of 2 of the response to the Commission's November 20, 1990 Order.

b. The January 11, 1991 Prefiled Testimony of John F. Hall, Exhibit A.

4. Reconcile the Prepayments and the Materials and Supplies balances provided in the January 11, 1991 Prefiled Testimony of John F. Hall, Exhibit A, with the balances shown in the Trial Balance provided in the response to the Commission's November 20, 1990 Order, Item 8, page 1 of 2.

5. Explain the basis for using test-year-end balances as opposed to 13-month averages for Prepayments, Materials and Supplies and Gas in Storage, at cost in the rate base computation included in the January 11, 1991 Prefiled Testimony of John F. Hall, Exhibit A.

6. Concerning Delta's adjustment for wages and salaries, Item 16, pages 3 and 5 of 12, of the response to the Commission's November 20, 1990 Order, provide the information listed below for each employee or employee classification. Identify all employees as either salaried or hourly, and also as either full-time, part-time, or temporary. Employee numbers or other identifiers may be used instead of employee names. Include an explanation of how the overtime pay rate is determined. All employees terminated during the test year should be identified, as well as those employees who replaced terminated employees or who were added during the test year.

a. The actual regular hours worked during the test year.

b. The actual overtime hours worked during the test year.

c. The test-year-end wage rate for each employee and the date of the last increase.

d. A calculation of the actual payroll for June 30, 1990 test year.

e. A calculation of the actual payroll taxes for the test year including the details of all applicable tax rates and bases.

f. A calculation of the proposed level of payroll and payroll taxes based on the July 1, 1991 payroll on the same basis as provided for the test year in a thru e above.

7. Provide supporting documentation for the proposed adjustment to operating expenses for postage cost increases as

provided in the response to the Commission's November 20, 1990 Order, Item 16, page 4 of 12. Include the applicable test year postage rates for the various types of correspondence.

8. Provide an itemized listing of the costs incurred to date for the preparation of this case, and an itemized estimate of the total cost to be incurred for this case. Indicate any costs incurred for this case that occurred during the test year. For each category, provide estimates of the hours worked, the rate per hour, and specifically identify other expenses. Provide copies of any invoices, contracts, or other documentation which support charges incurred or to be incurred in the preparation of this rate case. Provide a monthly update of these expenses up through and including the month the hearing is scheduled. For each itemized listing, break the expenses down into the following categories:

- a. Accounting.
- b. Engineering.
- c. Legal.
- d. Other (specify).

9. Concerning the proposed adjustment to Other Taxes as provided in the response to the Commission's November 20, 1990 Order, Item 16, page 10 of 12, provide the following:

- a. Taxes paid on property at December 31, 1989.
- b. Property valuation at December 31, 1989.
- c. Documentation supporting the proposed 44.3 percent increase for school taxes including any actual tax bills received.
- d. Documentation supporting the actual test-year property tax expense of \$265,834.

10. Provide all calculations that support the total Operating Income Required of \$3,838,314 as well as the resulting required rate of return on rate base of 10.565 percent as shown in the Prefiled Testimony of John F. Hall, Exhibit C.

11. Explain the basis for including the pre-1971 Deferred Investment Tax Credit in the overall capital structure as shown by the Prefiled Testimony of John F. Hall, Exhibit B. Additionally, provide the information in Exhibit B for Kentucky jurisdictional operations only.

12. Concerning the Note Receivable from Officer disclosed in both the Consolidated Balance Sheet provided in the response to the Commission's November 20, 1990 Order, Item 7, page 3 of 6, and the Form 10-K included with Delta's 1989 Annual Report on file with this Commission, provide the following:

a. The accounting treatment accorded the \$1,000 per month that is forgiven to the officer - per Form 10-K on file with this Commission.

b. The basis for the 8 percent interest rate paid on the unpaid balance.

c. A copy of the promissory notes outstanding to the officer.

13. Concerning the response to the Commission's November 20, 1990 Order, Item 28, page 2 of 2, explain the \$977,546 increase in Notes Payable to Parent. In addition, provide the loan documents that support the parent corporation's loan to the subsidiaries.

14. Concerning the non-utility property disclosed in the response to Item 31 of the Commission's November 20, 1990 Order,

provide details of any costs incurred and revenue received related to such properties during the test period. For each item, identify the account charged.

15. Explain the basis for excluding any capitalized interest in the Construction Work in Progress in the test year.

16. In light of 807 KAR 5:001, Section 4, explain the reason Delta has not proposed to exclude Sales and Promotional Advertising expense totalling \$19,698 as provided in the response to the Commission's November 20, 1990 Order, Item 25, page 1 of 4 of.

17. Concerning Delta's response to the Commission's November 20, 1990 Order, Item 25b, explain the nature of the following expenses. In addition, provide justification for including these expenses in the utility operating expenses.

- a. Marketing expenses totalling \$95,403.
- b. Company relations expenses totalling \$6,475.
- c. Public and community relations expenses totalling \$2,937.

18. Concerning the response to the Commission's November 20, 1990 Order, Item 18A, pages 1 through 10 of 10, provide a detailed explanation for the variances in the following accounts. Include with this explanation a detailed analysis of any extraordinary or nonrecurring charges included in the test year totals.

- a. Account No. 7531, Wells and Gathering Payroll.
- b. Account No. 7541, Compressor Station Payroll.
- c. Account No. 7542, Compressor Station Miscellaneous.
- d. Account No. 7641, Mnt. Wells and Gathering Payroll.

- e. Account No. 856, Right of Way Clearing.
- f. Account No. 8801, Operations Office Telephone.
- g. Account No. 8803, Operations Office Misc.
- h. Account No. 8871, Mnt. Trans. and Dist. Mains

Payroll.

- i. Account No. 8872, Mnt. Trans. and Dist. Mains

Payroll.

- j. Account No. 8932, Mnt. of Meters and Reg. Other.
- k. Account No. 9002, Opr. Transportation Expenses.
- l. Account No. 9003, Small Tools and Work Equipment.
- m. Account No. 9032, Customer Collections and Records.
- n. Account No. 913, Advertising.
- o. Account No. 922, Expenses Transferred.
- p. Account No. 8232, Outside Services Accounting.
- q. Account No. 924, Insurance.
- r. Account No. 9262, Pension.
- s. Account No. 9264, Medical Coverage.
- t. Account No. 9265, Salary Continuation Coverage.
- u. Account No. 9302, Company Memberships.
- v. Account No. 9304, Marketing.
- w. Account No. 9308, Dividend & Stockholder Reports.
- x. Account No. 9322, Mnt. Office Equipment.
- y. Account No. 9323, Mnt. General Structures.

19. Concerning the response to the Commission's November 20, 1990 Order, Item 18A, pages 5 and 6 of 10, describe the nature of the amounts shown in the 921 accounts, Travel Etc. Company Business.

20. Concerning the response to the Commission's November 20, 1990 Order, Item 18A, page 9 of 10, describe the nature of the amount shown in account number 9269 and explain why these expenses should be included for rate-making purposes.

21. Concerning the response to Item 19 of the Commission's November 20, 1990 Order, Delta provided the effect of the change in the tax rate, not the amount of excess deferred federal income taxes resulting from the change in the corporate tax rate in 1979. Provide the information originally requested in Item 19.

22. Provide the amount of excess deferred federal income taxes resulting from the reduction in the corporate tax rate from 46 percent to 34 percent due to the Tax Reform Act of 1986, as of the end of the test year. Indicate how much of these excess deferred federal income taxes would be characterized as "protected" and "unprotected."

23. Indicate if there are any employees of Delta that also perform work for any of Delta's subsidiaries. If there are, indicate the number of employees, the hours each employee works for each company, and how the employee-related costs are allocated.

24. Indicate and account for which, if any, of Delta's assets are shared by any of its subsidiaries.

25. Concerning Delta's response to Item 44 of the Commission's November 20, 1990 Order, identify the positions of the individuals who have personal use of company-owned vehicles and/or company-provided personal phone service. Provide the test-year costs of providing these personal benefits to each of

the individual positions listed. For any officers of Delta being provided vehicles and/or phones, identify the business reasons that justify their usage.

26. Concerning Delta's response to Item 44 of the Commission's November 20, 1990 Order, provide all supporting documentation for the benefits provided. This should include premium notices, company policies - including employee eligibility requirements, the account or accounts to which each of seven benefit costs are charged and the calculations that support the totals provided as test-year costs.

27. Concerning Delta's response to Item 44 of the Commission's November 20, 1990 Order, provide footnote disclosure number 2 that was omitted.

28. Provide the complete shareholders report for the fiscal year ended June 30, 1990.

29. Provide a trial balance as of June 30, 1990 for the Kentucky jurisdictional operations.

30. Provide a balance sheet as of June 30, 1990 for the Kentucky jurisdictional operations.

31. Concerning the income taxes per book totalling \$280,300 as provided in the response to Item 20 of the Commission's November 20, 1990 Order, page 2 of 3, provide a complete analysis of this total. Include all supporting calculations and workpapers.

32. Provide an analysis showing the effects of the change in the Kentucky income tax rate resulting from House Bill 940 passed

by the Kentucky General Assembly in its 1990 regular session. Include all supporting calculations and workpapers.

33. Concerning Delta's response to Item 7 of the Commission's November 20, 1990 Order, page 4 of 6, provide a detailed explanation for the increases in the following accounts:

- a. Notes Payable.
- b. Accrued Taxes.
- c. Refunds Due Customers.
- d. Advance Recovery of Gas Costs.

34. Concerning Delta's response to Item 16 of the Commission's November 20, 1990 Order, explain the basis for not including an interest synchronization adjustment to reflect the imputed interest expense on the portion of the unamortized investment tax credits that are apportioned by the debt capital of Delta.

35. Concerning the book depreciation schedule provided as Exhibit D-1, page 1 of 2 of the January 11, 1991 prefiled testimony of John F. Hall, provide a detailed explanation for using a depreciation rate of 2.9 percent as opposed to a rate of 2.5 percent as was found reasonable in the Commission's November 15, 1985 Order, Case No. 9331.¹

36. Provide a copy of the latest depreciation study.

¹ Case No. 9331, An Adjustment of Rates for Delta Natural Gas Company, Inc.

37. In a format similar to Notice Exhibit D, provide actual test-year Mcf sales reported by rate classification and, within each classification, by rate blocks.

38. For each month of the test year, provide actual and normalized Mcf sales for industrial and non-industrial customers in comparative form.

39. a. Provide the source for the normal degree days of 4,763 shown on page 2 of 12 in the response to Item 16 of the Commission's November 20, 1990 Order. Also provide the number of years from which the 4,763 was determined.

b. Provide a detailed explanation for why the industrial usage was deleted from the "annualized non-heat base" usage in calculating the weather usage adjustment shown in this same response.

40. Provide workpapers and explain the adjustment to revenues for standby (\$41,840) shown on page 1 of 12 in the response to Item 16 of the Commission's November 20, 1990 Order.

41. On page 5 of his testimony, Robert C. Hazelrigg discusses an interest by two GS industrial customers in converting to the interruptible rate. Explain the terms for the possible conversions, e.g., explain whether these customers will convert only if rates are approved by the Commission as proposed by Delta.

42. Provide a detailed explanation of why Delta proposed a 50 percent shift toward cost of service for allocation purposes, as referred to on page 4 of Robert C. Hazelrigg's direct testimony, as compared to a 25 percent shift, or a 75 percent shift.

43. Explain how the increases for the various rates and rate blocks were determined as shown in Notice Exhibit B-3. Provide supporting workpapers and calculations.

44. Per Exhibit RDG-1, page 15, the yearly customer cost for the general service class and interruptible class are shown at \$186.06 and \$2,164.58, respectively. Provide an explanation and related workpapers which show how this customer cost translates into the proposed \$10 and \$20 customer charges for residential and nonresidential customers and \$185 for interruptible customers.

45. Is Delta's underground storage used for any other purpose than to ensure an adequate supply for firm customers during peak conditions as stated on page 7 of Robert D. Greneman's testimony? Explain.

46. On page 7 of Robert D. Greneman's testimony, he states that a 50 percent weighting mechanism is used for off-system sales in order to recognize that "there is a significant portion of the transmission system that the off-system class does not utilize." However, on page 8 he states that the operation of Delta's transmission system is unique in that "there is largely a net outflow of gas due to off-system transportation." These statements seem contradictory. Explain.

47. Explain fully why a 50 percent weighting mechanism is used in allocating transmission mains to the off-system class and how the allocation factor is derived. Provide all workpapers and calculations supporting this allocation methodology.

48. Provide all workpapers, calculations, and computer output associated with and used in performing the zero-intercept methodology.

49. Explain fully why a 35 percent weighting mechanism is used in allocating the demand-related portion of distribution mains to off-system transportation customers and how the allocation factor is derived. Provide all workpapers and calculations supporting this allocation methodology.

50. Explain fully why services are allocated based on a factor comprised of 50 percent design-day and average demand and 50 percent number of customers and how the allocation factor is derived. Provide all workpapers and calculations supporting this allocation methodology.

51. Explain fully how the weighting factors used in allocating meters, customer accounts and customer service were derived. Provide all supporting workpapers and calculations.

52. Provide a summary of the cost-of-service study identical to that shown on Exhibit RDG-1, page 1, using proposed rates instead of current rates.

53. Explain fully how the cost-of-service study was used to determine the proposed revenue allocation. Provide all supporting workpapers and calculations.


54. On page 11 of his testimony, Robert D. Greneman states that he has performed an analysis which shows that the proposed monthly customer charges are "cost-justifiable." Provide a copy of this analysis.

Done at Frankfort, Kentucky, this 6th day of February, 1991.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director